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THE APPLICATION TO A MUNICIPALITY OF MODERN METHODS OF ACCOUNTING AND REPORTING

BY JOHN M. WALTON,
City Controller of Philadelphia.

Some time ago a prominent banker, while discussing with me a prospective bond issue for the City of Philadelphia, asked if a statement could be had of the city's financial condition and the results of its operation. I showed him our annual and other reports giving receipts, expenditures and indebtedness, but he intimated that he wanted to see more than this; that he wanted to know what the city owned as well as what it owed; the results of its operations each year; the distribution of expenditures between permanent improvements and current expenses. Much the same questions, in varied form, have been put to me a number of times in the last few years and to such an extent that I determined in 1910 to have prepared an inventory of the city's permanent properties as the first step in placing the accounts of the city upon an asset and liability, revenue and expense, and fund basis.

The inventory was taken by the several departments and bureaus of the city and county in November and December, 1910. The unaudited total of the inventory as shown in the balance sheets at December 31, 1910, amounted to \$250,351,352.63. The audit of the property inventory which included the taking up of properties not included in the original inventory resulted in a net increase of \$11,056,796.91 in the cost value of the unaudited inventory, while the acquisition of lands, structures, non-structural improvements and equipment during the year 1911 amounted to \$9,506,408.55, leaving the property account at December 31, 1911, amounting to \$270,914,558.09. All property was taken up at cost. In some few cases, where properties were originally returned at an estimated present value instead of at cost, this method resulted in a considerable reduction in the audited figures.

The audit of the inventories was made to ascertain: (1) that they had been made by responsible officials and that titles, dates and signatures were correct; (2) that all city property of a permanent

nature had been included and that property not of a permanent nature had been excluded; (3) that duplication of properties or entries in error did not exist; (4) that all property was correctly described and classified and that clerical inaccuracies did not exist; (5) that original cost values, as shown, were accurate; and (6) that present values had been established with due regard to depreciation and obsolescence.

In determining whether all real estate and improvements had been reported, and to eliminate duplications and other errors of entry, the co-operation of the Board of Revision of Taxes, and the Bureau of Surveys of the Department of Public Works was obtained. In arriving at an adequate reserve for depreciation of permanent properties, the assessed values of assessable property as determined by the Board of Revision of Taxes was taken as being their present value. On all other structures and equipment, a reserve, based on their estimated life, was calculated. It is believed that the reserve for depreciation account will be of increasing importance as time goes on and more accurate data are collected bearing upon the varying rates of depreciation upon property. When rates of depreciation have been accurately determined, they form the most accurate basis for appropriations for the repair and replacement of property resulting from wear and tear and obsolescence.

An analysis of expenditures by funds (general, loan and park) was begun as of January 1, 1911, in order to distinguish between expenditures for expense and expenditures for capital outlays (land, buildings, non-structural improvements and equipment) and to determine the relative use of loan moneys for expenses and general fund moneys for permanent improvements. In 1911, the net use of general fund moneys for permanent improvements was \$1,184,-954.14. This analysis of expenditures furnishes currently and in detail the acquisition of permanent properties so that the records of the city controller's office may show at all times of what the city is possessed. A property ledger contains in several hundred accounts the details that show the cost value of each class and sub-class of property. A property record contains the respective amounts of property by cost value chargeable to each department and bureau.

The analysis of expenditures is a first step toward the determination of cost of operation. This is a new departure in municipal accounting, it being thought in the past that exhibits of the cash

receipts and expenditures of the government were sufficient to enlighten taxpayers as to the results of operation of their municipal governments. If comparison is made between the latest reports of any of our well organized and managed railroads and industrial corporations and the reports of the same companies going back a period of, say thirty years, an investigator is astonished at the wealth of detail data bearing upon the cost of operation of each department and division of the enterprise that has been developed in the later reports. Revenues are also set forth in great detail. The cash statement of receipts and expenditures is rarely if ever seen in modern corporation accounting. I am convinced that in order to operate public business as private business is operated, and that apparently is the natural evolution that may be expected from the conditions of to-day, it is necessary to develop a system of accounting and reporting that will show year after year for comparative purposes and for efficiency tests the results of municipal operations.

In working toward this end the analysis of expenditures was commenced, which in addition to developing the facts as above stated, furnishes a secondary analysis by objects along the lines laid down by President Taft's Commission on Economy and Efficiency. Previously, only the classification by appropriation items for each department was available which made difficult if not impossible comparisons between departments and bureaus with a view to efficiency.

In order to establish and control the asset and liability, revenue and expense and fund system of accounting a general ledger was opened as of January 1, 1911. This ledger is designed to contain in summary form the accounts necessary to produce a set of financial statements showing the financial condition of the city, the condition of its several funds, and the results of operations for a given period, let us say a month, a quarter, or a year. A summary consolidated balance sheet as of December 31, 1911, is here exhibited. Many of these accounts in the general ledger control detailed ledgers such as the property, taxes receivable, water rents receivable, miscellaneous accounts receivable, appropriation and contract ledgers. The purpose of the detail ledgers is to show the condition of each of a large class of accounts that are represented by one controlling account in the general ledger. Thus arranged, the detail ledgers may be proven periodically to their respective controlling accounts in the general ledger by means of a trial balance.

CITY OF PHILADELPHIA

*Summary Consolidated Balance Sheet as of December 31, 1911, Showing Assets
Liabilities, Appropriations and Reserves.*

	General Account. For further detail see Exhibit "B," opposite page 14, and Exhibit "E," opposite page 20.	Capital Account. For further detail see Exhibit "C," opposite page 16, and Exhibit "E," opposite page 20.	Sinking Fund. For further detail see Exhibit "C," opposite page 16.	Special and Trust Account. For further detail see Exhibit "D," opposite page 18, and Exhibit "E," opposite page 20.	Total.
ASSETS					
Cash.....	\$5,858,436 38	\$15,494,649 68	\$123,197 02	\$86,550 48	\$21,562,833 56
Amounts due to City—Accounts receivable.....	3,220,763 81	1,543,500 00	14,050,642 94	321,182 35	4,764,263 81 14,371,825 29
Investments (City Loans).....					
Land, buildings, equipment and other permanent improvements.....		270,914,558 09			270,914,558 09
Total assets.....	\$9,079,200 19	\$287,952,707 77	\$14,173,839 96	\$407,732 83	\$311,613,480 75
LIABILITIES					
Bills and payrolls audited.....	\$2,099,926 80	\$624,204 30		\$423 98	\$2,724,555 08
Warrants payable.....	626,991 57	11,964 05			638,955 62
Temporary loan.....	1,200,000 00				1,200,000 00
Mortgages payable.....		1,006,500 00			1,006,500 00
Funded Debt.....		109,829,800 00			109,829,800 00
Other liabilities.....	22,141 33		\$30,934 72	18,873 40	71,949 45
Total liabilities.....	\$3,949,059 70	\$111,472,468 35	\$30,934 72	\$19,297 38	\$115,471,760 15
Excess of assets over liabilities.....	5,130,140 49	176,480,239 42	14,142,905 24	388,435 45	196,141,720 60
	\$9,079,200 19	\$287,952,707 77	\$14,173,839 96	\$407,732 83	\$311,613,480 75
APPROPRIATIONS, RESERVES AND FUNDS AVAILABLE FOR APPROPRIATION					
Loans authorized and unissued.....		\$2,425,000 00			\$2,425,000 00
Excess of assets over liabilities (as above).....	\$5,130,140 49	176,480,239 42	\$14,142,905 24	\$388,435 45	196,141,720 60
Total.....	\$5,130,140 49	\$178,905,239 42	\$14,142,905 24	\$388,435 45	\$198,566,720 60
Less—Appropriations and reserves:					
Appropriations (unencumbered balances).....	\$662,659 08	\$8,073,640 51		\$2,290 60	\$8,738,590 19
Reserves (see Exhibits "B," "C," "D," and "E").....	621,810 46	58,678,599 75	\$12,968,073 50	370,440 56	72,647,924 27
Total.....	\$1,284,469 54	\$66,752,240 26	\$12,968,073 50	\$381,731 16	\$81,386,514 46
Excess of assets and estimated receipts over liabilities, appropriations and reserves.....	\$3,845,670 95	\$112,152,999 16	\$1,174,831 74	\$6,704 29	\$117,180,206 14
Distributed as follows:					
Excess other assets over reserves.....	\$1,805,243 14		\$1,174,831 74		\$2,980,074 88
Excess properties over Funded Debt, mortgages payable and reserve for depreciation.....		\$112,052,999 16			112,052,999 16
Funds available for appropriation.....	2,040,427 81	100,000 00		\$6,704 29	2,147,132 10

By a recent segregation of the bookkeeping and auditing work of the auditors of disbursements in the city controller's department, the keeping of twenty-two appropriation ledgers and twenty-two contract ledgers, which were previously distributed among all the auditors, has been assigned to two of the auditors as their exclusive work. The other auditors are thus left free to give their entire time and attention to auditing work. The concentration of the bookkeeping has greatly facilitated the preparation of reports upon the condition of appropriations balances and contract reserves. Beginning with January, 1912, reports have been made to city councils monthly showing the condition of each item of appropriation.